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SUBJECT: PARAGUAY AND TAIWAN MAINTAIN DIPLOMATIC RELATIONS

Classified By: Deputy Chief of Mission Michael J. Fitzpatrick for reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) Paraguay's new Lugo government redefined Paraguay's relationship with the Republic of China (Taiwan) when it announced August 31 that it would no longer actively support Taiwan's interests in the United Nations. Taiwan reacted by hinting September 11 that it might cut off financial aid to Paraguay. The Lugo administration softened its position on relations with Taiwan following the Paraguayan Congress' September 17 approval of Taiwan's proposed financial aid package. Despite Lugo's interest in realigning Paraguay with the People's Republic of China (PRC), the PRC appears to respect Taiwan's "claim" to relations with Paraguay. The Lugo government's contradictory statements on the PRC and Taiwan and Lugo's latest pronouncement that Paraguay wants relations with both governments demonstrate the Lugo administration's lack of foreign policy experience. END SUMMARY.

PARAGUAY PULLS AWAY FROM TAIWAN

¶2. (U) The already-installed Lugo government redefined Paraguay's long-standing relationship with Taiwan when it announced August 31 that it would no longer actively support Taiwan's interests in the United Nations. The Paraguayan government signaled that Paraguay intended to seek formal relations with the PRC. President Fernando Lugo stated that Paraguayans desire closer relations with the PRC, and noted that Paraguay is the only country in South America that continues to maintain diplomatic ties with Taiwan. Foreign Minister Alejandro Hamed Franco told the press September 6 that the Paraguayan government planned to "establish relations with the PRC." Vice President Federico Franco questioned September 7 Paraguay's relationship with Taiwan, asserting, "(Taiwan) has always supported us, and it has never achieved anything. The question is -- is it (the relationship) worth continuing?"

¶3. (U) Taiwan reacted to Paraguay's decision not to support its interests by suggesting September 11 that it might cut off financial aid to Paraguay. Taiwanese Foreign Ministry Spokesperson Henry Chen denied that Taiwan had agreed to give Paraguay a USD 71 million financial aid package. He also stated that delivery of the financial aid package was contingent upon whether Paraguay submitted a detailed action plan to the Taiwanese government for approval -- which he contended Paraguay has not yet done. Chen also alleged that Paraguay initially requested financial assistance from the PRC in exchange for diplomatic relations but that the PRC had

rejected Paraguay's overtures -- prompting Paraguay to come back to Taiwan for assistance.

PARAGUAY AND TAIWAN BACK TOGETHER

¶4. (C) The Lugo administration softened its position on relations with Taiwan following the Paraguayan Congress' September 17 approval of Taiwan's proposed financial aid package. (NOTE: The Senate approved the USD 71 million financial aid package September 10; the Chamber of Deputies September 17. The donation would augment the budgets of several Paraguayan ministries. END NOTE.) Lugo told the press September 22 that Paraguay had made no "commitments" on relations with the PRC or Taiwan. He suggested that Paraguay would continue to maintain diplomatic relations with Taiwan, and at the same time strengthen ties to the PRC. Lugo also said that Paraguay would make an "independent" decision on diplomatic recognition -- implying that his government would not allow economic incentives to decide whether Paraguay would formally recognize the PRC. (NOTE: Taiwan actively engages in "dollar diplomacy" with Paraguay in exchange for Paraguay's diplomatic recognition. END NOTE.)

¶5. (C) Despite Lugo's interest in realigning Paraguay with the PRC, the PRC appears to respect Taiwan's "claim" to relations with Paraguay. Taiwanese Spokesperson Wang Yu-qi announced October 15 that the PRC had accepted a diplomatic truce with Taiwan, and that Taiwan -- not the PRC -- would continue to maintain diplomatic relations with Paraguay. The Taiwanese also acknowledged that Paraguay could cultivate a relationship with the PRC without jeopardizing its bilateral relationship with Taiwan.

COMMENT

¶6. (C) The Lugo government's contradictory statements on the PRC and Taiwan and Lugo's latest pronouncement that Paraguay wants relations with both governments demonstrate the Lugo administration's lack of foreign policy experience. A Lugo insider told DCM that there is little discussion of foreign policy issues with Lugo. In this case, someone suggested to Lugo that Paraguay break with Taiwan's dollar diplomacy in favor of the PRC and Lugo said "ok." It is not clear who is driving Lugo's foreign policy, but this case indicates that the decision is not always top-down. The Lugo government clearly favors establishing diplomatic relations with the PRC -- which it sees as an opportunity to realign politically with the rest of South America and secure trade benefits. If all other things remained equal, Paraguay would have opted for the PRC. However, the PRC-Taiwan truce suggests that Paraguay will maintain relations with Taiwan for the foreseeable future. END COMMENT.

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